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STATE FOR EAP/CM AND EEB/ESC, ISN/CPI FOR NEW AND INL; NSC
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TAGS: [EFIN](#) [ECON](#) [CH](#) [HK](#) [PARM](#) [PTER](#) [KNNP](#) [UK](#)
SUBJECT: HKMA "LOCKS UP" MELLI BANK, PLC (HK)

REF: A. HONG KONG 1107
[1](#)B. STATE 63929
[1](#)C. MULLINAX/NEW EMAILS 6/18-19/08

Classified By: E/P Section Chief Laurent Charbonnet, Reason 1.4 (b/d)

[1](#)1. (S) Summary: Hong Kong Monetary Authority (HKMA) Executive Director for Banking Supervision Arthur Yuen confirmed that HKMA has "locked up" Melli Bank, PLC (HK)'s accounts. While the bank is still officially operational, all transactions now require HKMA approval. HKMA banking supervision staff will begin a comprehensive audit of Bank Melli (HK)'s books "soon" and are paying particular attention to any transactions involving JetPower, ambiguous terms in letters of credit, and large-scale transfers through Melli Bank (HK) accounts. End Summary.

[1](#)2. (S) Econ Unit Chief met with Arthur Yuen, HKMA's Executive Director for Banking Supervision on June 27. Yuen declared that HKMA had completely "locked up" Melli Bank, PLC (HK)'s accounts in the wake of the European Union's June 23 announcement that froze Bank Melli's EU accounts. (Note: Melli Bank (HK) is a subsidiary of London-based Melli Bank. End Note.) HKMA's action is not officially related to the EU announcement, but is a precautionary measure to protect depositors, said Yuen.

[1](#)3. (S) As of the opening of business June 25, all Melli Bank (HK) transactions, including deposits, withdrawals and transfers, require approval from the HKMA. While this allows the bank to officially continue operating, in fact there have been no applications from the bank for approval of transactions of any kind. Yuen noted that his office has been in regular contact with the United Kingdom Financial Services Authority (FSA) and had been told that the FSA had also not received any applications for withdrawals from Melli Bank in the UK. Yuen said he was not aware of any large transfers from Melli Bank through its subsidiary in Hong Kong in recent weeks.

[1](#)4. (S) Yuen re-affirmed that HKMA has been closely monitoring Melli Bank (HK) for some time (ref A) and that his staff would soon commence an intensive audit of the bank's accounts. His staff has been alerted to pay particular attention to any transactions involving Hong Kong-based JetPower, any letters of credit with ambiguous descriptions of goods, and any large transfers into or out of Melli Bank (HK) accounts in recent weeks. He speculated that it was unlikely Bank Melli PLC would route transfers through Hong Kong, particularly if these were euro denominated accounts, as the small number of euro transactions in Hong Kong would make such transfers too easy to track.
Cunningham